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AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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July 1, 2003

TO: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

A handwritten signature in blue ink, appearing to be 'tm', located next to the 'FROM' line.

**SUBJECT: REVIEW OF INTERNATIONAL FOSTER FAMILY AGENCY – A
FOSTER FAMILY AGENCY FOSTER CARE CONTRACTOR**

Attached is our report on International Foster Family Agency (International or Agency) fiscal operations for the period July 1, 2001 through December 31, 2002. This is the second report issued on International's fiscal operations. The first report, covering the period of July 1, 2000 through June 30, 2001, was issued on February 27, 2003.

We were informed that, as of June 20, 2003, International ceased operations as a Foster Family Agency (FFA) providing services to the Department of Children and Family Services. However, during the period of our review, International had 326 children placed in 175 certified homes. During this period, International received \$12,510,637 in foster care funds (\$9,516,304 from Los Angeles County and \$2,994,333 from San Bernardino and Riverside Counties). International paid \$4,989,951 of this amount directly to foster parents. The Agency's administrative office was located in the Second Supervisorial District.

Scope

The purpose of our review was to ensure that International complied with its contract and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures in providing services to children placed in the Agency's care. We also evaluated the adequacy of International's accounting records, internal controls, and compliance with applicable federal, State and County fiscal guidelines governing the disbursement of FFA foster care funds.

Summary of Findings and Recommendations

Our review disclosed \$475,291 in unreasonable, unsupported/inadequately supported and unallowable expenditures. Specifically, we identified \$138,778 in unreasonable expenditures, \$304,740 in expenditures that were not supported or inadequately supported by original invoices or receipts, and \$31,773 in expenditures that were determined to be unallowable because they were not program related.

Although the Agency has ceased operations, we have recommended that DCFS resolve the identified costs and, if appropriate, pursue collection of all disallowed amounts.

Review of Report

We were unable to discuss our report with International's management due to their closure. DCFS has agreed to provide my office with a written response within 60 days detailing the resolution of all findings contained in the report.

If you have any questions, please contact me, or have your staff contact DeWitt Roberts at (626) 293-1101.

JTM:DR:RL
Attachment

c: Chief Administrative Office
David E. Janssen, Chief Administrative Officer
Claudine Crank, Budget & Operations Management Branch
Department of Children and Family Services
David Sanders, Ph.D., Director
John Oppenheim, Chief Deputy Director
Genevra Gilden, Chief, Quality Assurance Division
International Foster Family Agency
Betty Jones, Chief Executive Officer
Board of Directors
California Department of Social Services
Cora Dixon, Chief, Foster Care Audit Bureau
Sheilah Dupuy, Chief, Foster Care Rates Bureau
Public Information Office
Audit Committee
Commission for Children and Families

INTERNATIONAL FOSTER FAMILY AGENCY
REVIEW OF FOSTER FAMILY AGENCY CONTRACT

BACKGROUND

The Department of Children and Family Services (DCFS) contracted with International Foster Family Agency (International or Agency), as a Foster Family Agency (FFA), to recruit, certify, train and support foster family homes and to provide treatment and support services for DCFS children placed in these homes. During our review period of July 1, 2001 through December 31, 2002, International placed 326 children in 175 certified homes. International's administrative office was located in the Second Supervisorial District.

Under the provisions of the contract, the County paid International a monthly rate for each child, based on the FFA Annual Treatment Rate determined by the California Department of Social Services (CDSS). During our review period, International received a monthly rate between \$1,589 and \$1,865 per foster child and the Agency received \$9,516,304 in FFA funds from Los Angeles County.

CDSS has also established minimum amounts the FFA is required to pay certified foster parents. Effective July 1, 2001, the FFA is required to pay a minimum monthly rate of \$624 to \$790 per child, based on the age of the child. During the period of our review, International paid a total of \$4,989,951 to foster parents.

APPLICABLE REGULATIONS AND GUIDELINES

FFAs are required to operate in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our review:

- FFA Contract, including Exhibit F, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook).
- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations.
- California Department of Social Services Manual of Policies and Procedures (CDSS- MPP).
- California Code of Regulations, Title 22 (Title 22).

REVIEW OF EXPENDITURES

Our review disclosed a total of \$475,291 in unreasonable, unsupported/inadequately supported and unallowable expenditures. Details of these costs are discussed below.

Unreasonable Expenditures

The A-C Handbook, Section C.1.5, allows only those expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the program. International incurred \$138,778 in expenditures that were not necessary or reasonable in carrying out the purposes and activities of the foster care program.

CEO Salary Compensation

During a 15-month period from July 1, 2001 through September 18, 2002, International paid its former CEO \$293,291 in salary compensation. Neither the State nor the County has guidelines, specific to FFAs, that establishes annual salary limits for CEOs. We reviewed the salary paid to CEOs of three similar sized FFAs audited by the Auditor-Controller's office in the past two years. We calculated the average salary for FFA executive officers during a 15-month period to be approximately \$177,500. As a result, we are questioning \$115,791 of the former CEO's salary as unreasonable compensation.

Transportation Costs

Section 7(g) of the Circular states that the cost of organization-furnished automobiles that relates to personal use by employees (including transportation to and from work) is unallowable.

In our February 27, 2003 report on International, we noted that the former CEO leased a 1999 Cadillac Seville. In that report, we identified \$17,815 in non-business and unreasonable vehicle expenditures. In April 2002, the former CEO replaced the Cadillac Seville with a leased 2002 Cadillac Escalade for \$1,083 per month.

International paid a total of \$14,193 for the Cadillac Escalade during our review period. This includes an initial lease signing amount (covering the first monthly payment, registration fees, sales/use tax and capitalized costs), monthly lease payments from May through December 2002, and maintenance and repairs. In addition, the former CEO paid \$526 for maintenance and repairs made to this vehicle and did not maintain mileage logs. As a result, we were unable to determine the frequency of business use, if any.

We question the entire amount expensed on the vehicle because the Agency did not provide mileage logs or any other supporting documents to document the business use of the vehicle. In addition, a Cadillac Escalade represents a luxury vehicle that was

acquired to primarily benefit International's CEO. It is not reasonable or necessary for the Agency to use public funds on a luxury vehicle.

Security Expense

On September 19, 2002, after the termination of the former CEO and the Management Information Systems Director, International's CEO hired three guards for security services. During this review period, the guards provided security services for approximately one month for a total of \$8,794. The primary duties of the security guards included chauffeuring and providing personal protection for the CEO.

International did not notify local law enforcement of their security concerns nor could they articulate a specific incident that justified this degree of security. In addition, International did not notify DCFS about security concerns until several weeks after the hiring of the security guards. They discontinued the security guard services when DCFS inquired about the justification. Given the lack of justification or notification to DCFS or notification to local law enforcement, we concluded that it was not necessary or reasonable for International to have paid for these security guards. International should not have used foster care funds for this purpose. As a result, we are including the entire security expense of \$8,794 as an unreasonable and unnecessary cost.

Unsupported/Inadequately Supported Expenditures

The A-C Handbook states that original vouchers, invoices, receipts, or other documentation shall support all revenues and expenditures. Unsupported expenditures will be disallowed on audit. We identified \$304,740 in FFA expenditures that were either not supported or the support provided was inadequate.

- \$115,228 in credit card payments for items such as clothing, conferences and meetings, meals, office supplies, software and data services, telephone and cell phone charges, toys, gas purchases, travel, flowers, and tickets to entertainment events. The credit card purchases reviewed were missing various necessary documentation such as itemized receipts, the name of the person for whom the expense was incurred or the purpose of the expense.
- \$96,077 paid to the former CEO. International did not provide any supporting documentation for expenses involving such items as travel, Christmas activities, expense reimbursements, and payroll adjustments. The Agency's Controller stated that supporting documents were not available due to a pending lawsuit by the former CEO.
- \$54,405 of additional expenditures involving the purchase of computer supplies, office supplies, travel, hotel, telephone, petty cash reimbursements, building repairs and maintenance, and Christmas activities. These expenditures were missing various necessary documentation such as itemized receipts, the name of the person for whom the expense was incurred or the purpose of the expense.

- \$30,211 paid to Dr. Juarez, a former Administrator. On October 23, 2002, International issued eight checks totaling \$30,211 to Dr. Juarez at the direction of an interim Administrator, Dr. Joseph Coleman. The Controller and the current CEO indicated that there are no supporting documents such as timecards to justify the payments. According to the current CEO, the eight checks represent unauthorized payments to the former Administrator. At the time of our review, the Agency was attempting to recover the amount through legal means.
- A \$3,500 payment to an independent contractor. International could not provide an invoice identifying work performed, hours worked or the rate charged.
- \$3,073 in charges for gasoline on Texaco and Chevron credit cards. International did not provide adequate support such as mileage logs to indicate the driver, vehicle and purpose of the trip to justify the gasoline expenses.
- \$2,246 in life insurance payments to United States Life and Transamerica Occidental during our audit period. Per the Circular, costs of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibility are allowable only to the extent that the insurance represents additional compensation. However, the costs of such insurance, when the organization is named as beneficiary, are unallowable. We requested, but did not receive, copies of the Agency's life insurance policies for the two insurance carriers noted above.

Unallowable Expenditures

We identified \$31,773 in unallowable expenditures. Listed below are the details of these expenditures.

Interest Expense

Section 23(a) of the Circular states that interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable. During our review period, International paid \$15,158 in interest payments on a loan from Bank of America. Accordingly, we question \$15,158 in interest expense as an unallowable cost.

Beverly Hills Country Club

According to the Circular, Section 30(e), costs of membership in any country club or social or dining club or organization are unallowable. In addition, Section 14 of the Circular states that costs of amusement, diversion, social activities, ceremonies, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable. International incurred \$12,247 in expenditures at the Beverly Hills Country Club.

The payments to the Beverly Hills Country Club were made when the former CEO was in charge of International. In December 2001, International paid \$6,013 for a banquet held at the Beverly Hills Country Club for approximately 150 employees. The additional \$6,234 was for membership dues. International should not use foster care funds for this type of activity. Therefore, we question \$12,247 as unallowable costs.

Other Unallowable Expenditures

International used \$2,735 of FFA funds on other unallowable expenditures, including \$2,375 for finance charges, over limit fees and late fees; \$334 for insufficient funds penalties from accounts with Bank of America. Sections 16 and 23(a) of the Circular indicate that fines, penalties, and finance charges (interest) such as these are unallowable. In addition, International expended \$26 for the purchase of alcoholic beverages, Section 2 of the Circular, states that expenditures for alcoholic beverages are unallowable.

Reorganization Expenditures

Section 31 of the Circular states that expenditures, such as incorporation fees, brokers' fees, fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselors, whether or not employees of the organization, in connection with establishment or reorganization of an organization are unallowable except with the prior approval of the awarding agency. International paid \$1,633 in attorney fees to change the Agency's name. International did not provide documentation that they had requested DCFS approval for the name change; therefore, we are including the entire \$1,633 as an unallowable cost.

Recommendation

- 1. DCFS management resolve the \$475,291 in unreasonable expenditures, unsupported/inadequately supported expenditures and unallowable expenditures, and, where appropriate, collect any disallowed amounts.**

DCFS OVERPAYMENTS

As of December 31, 2002, International's balance sheet indicated \$81,864 "Due to LA County for Overpayments." International has not been preparing Payment Resolution Notification Forms (COV-71 forms) to notify DCFS of payment discrepancies (overpayments).

The A-C Handbook states that, if upon audit, or any time during the agreement year, it is determined that invoices submitted to the County and used as a basis for payments to the contractor were inaccurate, County shall determine the total overpayment and require the contractor to repay the County. We recommend that DCFS management work with International to resolve the overpayment discrepancy.

Recommendation

2. DCFS management work with International's management to resolve the \$81,864 in overpayments and, where appropriate, attempt to collect any disallowed amounts.